

Message Text

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ORIGIN EB-08

INFO OCT-01 EUR-12 NEA-11 ISO-00 SOE-02 AID-05 CEA-01
CIAE-00 COME-00 DODE-00 DOE-15 H-01 INR-10 INT-05
L-03 NSAE-00 OMB-01 PM-05 OES-07 SP-02 SS-15
STR-07 TRSE-00 ACDA-12 NSCE-00 SSO-00 ICAE-00
INRE-00 SIG-03 CTME-00 ITC-01 /127 R

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APPROVED BY EB:JLKATZ
TREAS-AMSOLOMON
NEA:JTWINAM
DOE-HBERGOLD

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O 151634Z MAY 78
FM SECSTATE WASHDC
TO AMEMBASSY JIDDA IMMEDIATE
INFO AMCONSUL DHAHRAN IMMEDIATE
AMEMBASSY LONDON IMMEDIATE
AMEMBASSY TEHRAN IMMEDIATE
AMEMBASSY ABU DHABI IMMEDIATE
USLO RIYADH IMMEDIATE

C O N F I D E N T I A L STATE 122898

E.O. 11652: GDS

TAGS: ENRG, SA

SUBJECT: YAMANI AND U.S. OIL IMPORT TAX

REF: LONDON 7511

1. YAMANI'S STATEMENTS, AS REPORTED REFTTEL, INDICATE A
MISUNDERSTANDING OF THE NATURE AND PURPOSE OF AN OIL
IMPORT FEE. YOU SHOULD CONVEY THE FOLLOWING POINTS TO
APPROPRIATE SAG OFFICIALS, INCLUDING YAMANI WHEN HE RETURNS.

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-- U.S. HAS REACHED NO RPT NO DECISION AT THIS TIME TO
IMPOSE AN INCREASED OIL IMPORT FEE.

-- PRESIDENT CARTER HAS MADE CLEAR THAT HE CONTINUES
TO SEEK CONGRESSIONAL APPROVAL OF THE PROPOSED CRUDE OIL
EQUALIZATION TAX (COET) ON DOMESTICALLY PRODUCED OIL.

-- THE EFFECT OF COET WOULD BE TO RAISE THE AVERAGE PRICE OF CRUDE OIL TO U.S. REFINERS, AND HENCE TO U.S. CONSUMERS, TOWARD WORLD PRICE LEVEL, THEREBY PROMOTING CONSERVATION OF OIL IN THE U.S. AND REDUCING THE PRESSURE OF U.S. DEMAND ON WORLD OIL SUPPLIES. LEADING OIL PRODUCERS, INCLUDING SAG, HAVE INDICATED THEY FAVOR THESE OBJECTIVES AND HAVE URGED USG TO TAKE NECESSARY ACTIONS TO ACHIEVE THEM.

-- IF THE CONGRESS DOES NOT APPROVE THE COET, THE ADMINISTRATION WILL HAVE TO CONSIDER POSSIBLE ALTERNATIVE ACTIONS TO OBTAIN THE SAME STIMULUS TO OIL CONSERVATION, INCLUDING A POSSIBLE FEE ON IMPORTED OIL FOR WHICH THE PRESIDENT NOW HAS LEGAL AUTHORITY.

-- BY RAISING THE PRICE TO DOMESTIC REFINERS OF IMPORTED OIL, SUCH A FEE COULD PRODUCE THE SAME INCREASE IN THE AVERAGE CONSUMER PRICE OF OIL SOLD IN THE U.S. AS WOULD RESULT FROM THE TAX ON DOMESTICALLY PRODUCED OIL. OUR OBJECTIVE IN EITHER CASE IS TO RAISE THE CONSUMER PRICE OF OIL IN THE U.S. TO WORLD PRICE LEVELS.

-- THE PRESIDENT'S PROPOSAL FOR THE COET INCLUDED PROVISIONS FOR RECYCLING THESE TAX REVENUES BACK INTO THE ECONOMY TO AVOID A NEGATIVE IMPACT ON ECONOMIC ACTIVITY. IT IS LIKELY THAT SIMILAR RECYCLING OF REVENUES WOULD BE CONFIDENTIAL

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PROPOSED IF THE PRESIDENT WERE TO DECIDE TO IMPOSE A FEE.

-- THUS, THE IMPORT FEE, IF THE PRESIDENT WERE TO DECIDE TO IMPOSE IT AS AN ALTERNATIVE TO COET, SHOULD BE CONSIDERED A TEMPORARY MEANS OF ACHIEVING THE SAME DESIRED INCREASE IN INTERNAL U.S. OIL PRICES. THE ADMINISTRATION WOULD CONTINUE IN ANY CASE TO SEEK ADOPTION OF THE COET. IT IS IMPORTANT TO NOTE THAT WHETHER THE COET IS ADOPTED, OR SOME ALTERNATIVE TO ACHIEVE SAME RESULT, THIS WOULD NOT HAVE THE HARMFUL IMPACT ON GLOBAL ECONOMIC ACTIVITY OR MONETARY STABILITY OF AN INCREASE IN THE WORLD OIL PRICE. NEITHER MEASURE WOULD WORSEN U.S. BALANCE OF PAYMENTS AND THUS WEAKEN DOLLAR. IN FACT, BY DEMONSTRATING U.S. DETERMINATION TO LIMIT ITS CONSUMPTION OF OIL, WE BELIEVE SUCH ACTION WOULD STRENGTHEN DOLLAR AND WITH IT CONFIDENCE IN THE INTERNATIONAL MONETARY SYSTEM.
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